

STATEMENT OF
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AND INTERNATIONAL AFFAIRS
DEPARTMENT OF TRANSPORTATION
BEFORE THE
SUBCOMMITTEE ON AVIATION
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
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THANK YOU MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE. WE ARE SIX MONTHS INTO THE SECOND TERM OF THE CLINTON ADMINISTRATION, A NEW SECRETARY HAS TAKEN OVER AT THE DEPARTMENT OF TRANSPORTATION, AND INTERNATIONAL AVIATION LIBERALIZATION, GUIDED BY THE PRECEPTS IN THE US INTERNATIONAL AIR TRANSPORTATION POLICY STATEMENT, CONTINUES TO MOVE FORWARD. I REALIZE THAT YOU ARE PARTICULARLY INTERESTED IN THE CURRENT STATUS OF OUR AVIATION RELATIONSHIPS WITH JAPAN AND THE UNITED KINGDOM. HOWEVER, I WOULD LIKE TO ESTABLISH THE GLOBAL CONTEXT FOR THE REVIEW OF THOSE RELATIONSHIPS.

THE US AIRLINE INDUSTRY IS REAPING THE BENEFITS OF OUR SUCCESSFUL PROMOTION OF OPEN SKIES AND, WHEN NECESSARY, PHASED LIBERALIZATION OF AVIATION REGIMES. AFTER FINANCIAL CRISES IN THE EARLY 1990S AND A RESURGENCE IN FOREIGN GOVERNMENT PROTECTIONISM, TODAY WE CAN REPORT THAT US INTERNATIONAL AIRLINES ARE RECORDING RECORD PROFITS AND HAVE SOLID PROGNoses FOR THE YEARS TO COME.

FOR 1996, THE MAJOR PASSENGER AND CARGO AIRLINES REPORTED A COMBINED OPERATING PROFIT OF \$6 BILLION AND A COMBINED NET

PROFIT OF \$2.8 BILLION. INTERNATIONAL OPERATIONS ALONE GENERATED A COMBINED OPERATING PROFIT OF \$629 MILLION AND A NET PROFIT OF \$204 MILLION.

ON THE TRAFFIC SIDE, THE NUMBER OF INTERNATIONAL PASSENGERS AND THE FREIGHT TONS CARRIED BY US AIRLINES HAVE SHOWN SIMILARLY STRONG RESULTS. FROM 1992 TO 1996, US AIRLINE PASSENGER TRAFFIC INCREASED OVER 22 PERCENT - IN REAL TERMS THAT MEANS 10 MILLION MORE PEOPLE ARE FLYING ON OUR CARRIERS. FOR FREIGHT, THE GROWTH RATE IS EVEN MORE IMPRESSIVE. FREIGHT TRAFFIC IS UP BY OVER ONE MILLION TONS; THAT REPRESENTS GROWTH OF NEARLY 59 PERCENT IN JUST FOUR YEARS.

NO SINGLE FACTOR CAN BE CREDITED FOR SUCH DRAMATICALLY IMPROVED PERFORMANCE. THE INDUSTRY REBOUND HAS BEEN SPURRED BY THE EXTREMELY POSITIVE PERFORMANCE OF THE US ECONOMY OVER THE PAST FOUR YEARS, THE GENERAL UPSWING THAT MANY ECONOMIES OF THE WORLD ARE ENJOYING, MANAGEMENT EFFICIENCY MEASURES DELIVERING NEEDED COST REDUCTIONS, AND THE INCREASING NEED FOR AIR SERVICES CREATED BY THE GLOBALIZATION OF OTHER ECONOMIC SECTORS. HOWEVER, THE FLEXIBILITY FOR AIRLINE SERVICE PROVIDERS TO RESPOND CREATIVELY AND SWIFTLY TO MULTIPLE INTERNAL AND EXTERNAL FACTORS IS CENTRAL TO THE ABILITY OF THE AIRLINE INDUSTRY TO RESHAPE ITSELF AND MAKE PLANS FOR A VIABLE FUTURE IN AN UNPREDICTABLE WORLD. WITHOUT THAT FLEXIBILITY, THE INDUSTRY'S POTENTIAL CANNOT BE REALIZED. GOVERNMENT AVIATION POLICY MUST REFLECT AND ACCOMMODATE THIS FUNDAMENTAL NEED.

UNDER PRESIDENT CLINTON, THE US GOVERNMENT'S INTERNATIONAL AVIATION POLICY HAS BEEN SET OUT AND AFFIRMED THROUGH A BROAD-BASED PUBLIC REVIEW OF US AVIATION GOALS AND STRATEGIES. NOT ONLY WAS THE POLICY ISSUED, BUT MORE IMPORTANTLY WE HAVE ADHERED TO ITS GOALS AND IMPLEMENTED ITS STRATEGIES. AND, AS I WILL DESCRIBE, WE HAVE ACHIEVED SUCCESS. OUR AVIATION LIBERALIZATION POLICY IS WORKING TO CREATE A GLOBAL ENVIRONMENT IN WHICH WELL MANAGED, COMPETITIVE AIR TRANSPORTATION COMPANIES CAN DELIVER THE BEST POSSIBLE TRANSPORT OPTIONS TO THE TRAVELLING AND SHIPPING PUBLIC WHILE EARNING PROFITS FOR OWNERS AND OFFERING WELL PAYING JOBS TO EMPLOYEES. IN THIS CONNECTION, IT IS SIGNIFICANT THAT US AIRLINES EMPLOY OVER SIX HUNDRED THOUSAND PEOPLE, AND US AIRLINE ACTIVITY HAS CONTRIBUTED TO CREATING HUNDREDS OF THOUSANDS OF JOBS IN ASSOCIATED INDUSTRIES.

THE US INTERNATIONAL AIR TRANSPORTATION POLICY STATEMENT HAS NOW BEEN JOINED BY AN INTERNATIONAL AFFIRMATION OF GLOBAL AVIATION LIBERALIZATION BY THE ORGANIZATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT (THE OECD). THE OECD, AN ORGANIZATION OF MAJOR INDUSTRIAL, MARKET-BASED ECONOMIES, DRAWS ITS 29 MEMBERS STATES FROM COUNTRIES IN EUROPE, NORTH AMERICA AND THE PACIFIC AREA. THE REPORT, ENTITLED THE FUTURE OF INTERNATIONAL AIR TRANSPORTATION POLICY: RESPONDING TO GLOBAL CHANGE, ADVOCATES THE OVERHAUL OF THE CURRENTLY REGULATION-BOUND INTERNATIONAL AIR TRANSPORTATION SYSTEM AND THE ESTABLISHMENT OF ONE BASED MORE ON MARKET PRINCIPLES.

FAILURE TO DO SO WILL PERPETUATE MAJOR INEFFICIENCIES IN AIR TRANSPORT, THEREBY THREATENING THE ABILITY OF THIS SERVICE SECTOR TO RESPOND TO THE EVOLVING NEEDS OF A RAPIDLY INTEGRATING GLOBAL ECONOMY.

IN TRANSFORMING THE CONCEPTS OF THE US INTERNATIONAL AVIATION POLICY STATEMENT INTO OPERATING OPPORTUNITIES, THE UNITED STATES HAS DEMONSTRATED SUBSTANTIAL CREATIVITY AND LEADERSHIP. LEAVING BEHIND TIT-FOR-TAT AVIATION TRADES, WE ARE NEGOTIATING FAR MORE STRATEGICALLY. OUR LIBERALIZATION FOCUS HAS OFTEN BECOME BROADER THAN ANY SINGLE COUNTRY MARKET. GUIDED BY STRATEGIES LAID OUT IN THE POLICY STATEMENT, WE HAVE LOOKED AT GROUPS OF MARKETS NOT SOLELY FOR THEIR ECONOMIC VALUE TO US INTERESTS, BUT ALSO FOR THEIR STRATEGIC VALUE IN INFLUENCING THE TRANSFORMATION OF ENTIRE REGIONS.

GLOBAL COMMERCIAL IMPERATIVES PROVIDED A DRIVING FORCE FOR ADOPTING AN OPEN-SKIES APPROACH. MANY AIRLINES REALIZED THAT NETWORKING WITH OTHER AIRLINES' ROUTE SYSTEMS PERMITTED EXPANDED MARKET PENETRATION ON A RAPID, COST-EFFECTIVE, AND LIMITED RISK BASIS. AFTER CAREFUL CONSIDERATION OF THEIR POTENTIAL COMPETITIVE CONSEQUENCES, THE DEPARTMENT HAS GRANTED ANTITRUST IMMUNITY TO SEVERAL STRATEGIC MARKET ALLIANCES BETWEEN US AND FOREIGN AIR CARRIERS WHOSE HOMELANDS HAVE ENTERED INTO OPEN AVIATION REGIMES WITH US. THIS IMMUNITY ALLOWS THE PARTNER AIRLINES TO INTEGRATE THEIR SEPARATE SYSTEMS INTO HIGHLY EFFECTIVE NETWORKS. THESE

MULTICARRIER NETWORKS, IN TURN, COMPETE WITH EACH OTHER. THIS COMPETITION HAS EXPANDED THE PRODUCT CHOICES AND PRICES AVAILABLE TO CONSUMERS AND ENHANCED THE ACCESS OF US CITIES TO THE INTERNATIONAL AIR TRANSPORTATION SYSTEM. FOR EXAMPLE, IN GRANTING ANTITRUST IMMUNITY TO THE EUROPEAN ALLIANCES OF NORTHWEST, UNITED AND DELTA, THE DEPARTMENT FOUND THAT A MAJOR PUBLIC INTEREST CONSIDERATION IN FAVOR OF APPROVAL WAS THE POTENTIAL OF THE ALLIANCES TO BRING ONLINE SERVICES TO TENS OF THOUSANDS OF CITY-PAIR MARKETS.

MOREOVER, MARKETPLACE RESULTS ARE CONFIRMING THE PROSPECTIVE COMPETITIVE BENEFITS. A RECENTLY RELEASED AUSTRALIAN STUDY OF THE EFFECTS OF INTERNATIONAL AIRLINE ALLIANCES ON COMPETITION HAS IDENTIFIED A 10-PERCENT SAVING FOR STANDARD ECONOMY FARES ON AUSTRALIAN INTERNATIONAL ROUTES. THIS RESULT IS CONSISTENT WITH OUR EXPECTATION THAT THE GROWTH OF ALLIANCES SHOULD LEAD TO EFFICIENCIES AND ENHANCED COMPETITION THAT, IN TURN, SHOULD BRING LOWER PRICES TO CONSUMERS.

IN A SUCCESSFUL MELDING OF THE GOALS AND STRATEGIES OUTLINED IN THE POLICY STATEMENT, THE UNITED STATES HAS INITIATED SEVERAL REGIONAL OPEN-SKIES INITIATIVES. FIRST, IS OUR EUROPEAN INITIATIVE BEGUN IN 1995. WE OFFERED ANY COUNTRY IN EUROPE THE OPPORTUNITY TO ENTER INTO AN OPEN-MARKET REGIME WITH THE UNITED STATES. ORIGINALLY NINE COUNTRIES SIGNED. ADDING THESE TO THE EARLIER DUTCH OPEN-SKIES AGREEMENT CREATED A GROUP OF TEN COUNTRIES BETWEEN WHICH US AIRLINES COULD FREELY NETWORK ON THEIR OWN

OR IN PARTNERSHIP WITH ANY OF THE AIRLINES OF THE SIGNATORY COUNTRIES. WITHIN A YEAR, THE POSITIVE MARKET RESULTS FOR THE GROWING ALLIANCE PARTNERSHIPS BETWEEN NORTHWEST AND KLM AND AMONG DELTA, AUSTRIAN, SABENA, AND SWISSAIR, INFLUENCED GERMANY TO ABANDON PROTECTIONISM AND INCLUDE ITS AIRLINES IN THE OPEN-SKIES DYNAMIC. SHORTLY AFTER, THE CZECH REPUBLIC JOINED. TODAY, WE HAVE 12 EUROPEAN OPEN-SKIES COUNTRIES, SEVERAL SUCCESSFUL ALLIANCES BETWEEN US AND EUROPEAN AIRLINES, AND FORTY PERCENT OF ALL TRAFFIC BETWEEN THE US AND EUROPE ENJOYING THE BENEFITS OF CARRIER AND NETWORK COMPETITION.

THE SPILLOVER EFFECTS OF THE INITIAL PHASE OF THE EUROPEAN OPEN SKIES INITIATIVE ARE STILL BEING FELT. COUNTRIES, SUCH AS SPAIN, ITALY, AND FRANCE, WHICH PREVIOUSLY WOULD NOT SO MUCH AS WHISPER "OPEN-SKIES", ARE STEPPING FORWARD TO DISCUSS A MORE LIBERAL AND OPEN AVIATION RELATIONSHIP WITH THE UNITED STATES, AND THEIR AIRLINES ARE ACTIVELY SEEKING ALLIANCE PARTNERS. THE EUROPEAN COMMISSION, WHICH FOR YEARS HAS SOUGHT A NEGOTIATING MANDATE FROM THE MEMBER STATES OF THE UNION, HAS INDICATED THAT THE EVENTUAL POSITION OF THE COMMISSION REGARDING A NORTH ATLANTIC AVIATION REGIME WILL EMBRACE ALL THE TERMS OF OPEN SKIES.

MOVING TO THE WESTERN HEMISPHERE, THE TREMENDOUS SUCCESS OF THE US-CANADA OPEN TRANSBORDER AVIATION AGREEMENT OF 1995 IS WELL KNOWN, AND WE LOOK FORWARD TO COMPLETING THE LIBERALIZATION OF OUR AVIATION RELATIONSHIP. WE NOW SEEK TO

SHARE WITH OUR PARTNERS TO THE SOUTH THE BENEFITS WE SHARE WITH OUR NEIGHBOR TO THE NORTH.

THIS ADMINISTRATION IS MOVING FORWARD TO OPEN UP TRADE AND TOURISM WITH CENTRAL AMERICA AND THE REST OF LATIN AMERICA TO STIMULATE ECONOMIC AND COMMERCIAL GROWTH NOT ONLY FOR THE UNITED STATES, BUT FOR EVERY COUNTRY IN LATIN AMERICA.

EXPANDED TRADE, TOURISM, AND COMMERCIAL DEVELOPMENT DEPEND ON AIR TRANSPORTATION. THAT IS WHY LAST FALL THE UNITED STATES, IN CONSULTATION WITH THE GOVERNMENTS OF CENTRAL AMERICA, ANNOUNCED AN INITIATIVE TO NEGOTIATE OPEN-SKIES AVIATION AGREEMENTS WITH ANY INTERESTED COUNTRY IN CENTRAL AMERICA. THIS INITIATIVE HAS YIELDED NEW OPEN-SKIES AGREEMENTS WITH COSTA RICA, EL SALVADOR, GUATEMALA, HONDURAS, NICARAGUA, AND PANAMA. WE ARE CONTINUING TO WORK ON OPEN SKIES WITH BELIZE AND THE DOMINICAN REPUBLIC. IN ADDITION, WE ARE EXPLORING OPEN SKIES WITH CHILE. AND WE WILL BE ALERT TO OTHER OPPORTUNITIES FOR LIBERALIZATION THAT MAY DEVELOP IN SOUTH AMERICA.

CONTINUING WESTWARD, WE REACH THE RAPIDLY EXPANDING MARKETS OF ASIA. ACCORDING TO A RECENT BOEING REPORT, US-SOUTHEAST ASIA AIR TRAFFIC MORE THAN TRIPLED OVER THE LAST DECADE. IT IS EXPECTED TO MORE THAN DOUBLE AGAIN IN THE NEXT DECADE, WITH A PROJECTED ANNUAL GROWTH RATE OF SEVEN PERCENT.

TO SECURE A STRONG FOUNDATION FOR AN OPEN COMPETITIVE AVIATION REGIME IN THE ASIA/PACIFIC MARKET, WE ARE CURRENTLY INVOLVED IN A MAJOR REGIONAL OPEN-SKIES INITIATIVE IN THE PACIFIC RIM. AS A FIRST STEP, THIS ASIAN INITIATIVE INCLUDES SINGAPORE, TAIWAN, BRUNEI, MALAYSIA, KOREA, AND NEW ZEALAND AS ECONOMIES WITH WHOM WE WOULD SHARE OPEN AVIATION REGIMES. WE HAVE SIGNED AN OPEN-SKIES AGREEMENT WITH SINGAPORE AND HAVE INITIALED OPEN-SKIES AGREEMENTS WITH TAIWAN AND BRUNEI. OUR NEGOTIATORS RECENTLY RETURNED FROM KOREA AND WE ANTICIPATE FURTHER DISCUSSIONS THIS SUMMER ON OPEN SKIES. WE ARE NEGOTIATING AN OPEN-SKIES AGREEMENT WITH MALAYSIA THROUGH OUR EMBASSY IN KUALA LUMPUR. ON MAY 29, WE INITIALED AN OPEN-SKIES AGREEMENT WITH NEW ZEALAND, WHICH WE ANTICIPATE FORMALLY SIGNING THIS MONTH.

OUR POLICY STATEMENT ADVOCATED EXPLORING ALTERNATIVES TO BILATERAL NEGOTIATIONS , AND THE US, AS MANY OF YOU KNOW, HAS BEEN WORKING CLOSELY WITH OTHER NATIONS OF THE ASIA-PACIFIC REGION TO DEVELOP APEC (ASIA-PACIFIC ECONOMIC COOPERATION FORUM) AS AN EFFECTIVE FORUM FOR PROMOTING THE ECONOMIC GROWTH AND DEVELOPMENT OF THE REGION. APEC HAS TAKEN A MAJOR STEP IN THAT DIRECTION BY COMMITTING ITSELF TO ACHIEVING FREE TRADE AND INVESTMENT LIBERALIZATION ACROSS ALL SECTORS AND ALL DEVELOPED ECONOMIES OF THE REGION BY THE YEAR 2010. IT HAS ALSO ESTABLISHED AN "ACTION PLAN" FOR ACCOMPLISHING THAT OBJECTIVE IN ALL SECTORS -- INCLUDING AVIATION. WE WELCOME THESE

DEVELOPMENTS, AND WE INTEND TO CONTINUE TO WORK WITH APEC TO PROMOTE COMPETITIVE AIR SERVICE IN THE REGION.

IN THE MEANTIME, WE ARE PARTICULARLY ENCOURAGED BY THE RESULTS, ON THE BILATERAL LEVEL, OF OUR ASIAN OPEN-SKIES INITIATIVE SINCE THE FACTORS WHICH ARE CONTRIBUTING TO ITS SUCCESS SHOULD ALSO HELP US TEAR DOWN OTHER AVIATION TRADE BARRIERS IN THE REGION.

-- WHICH BRINGS ME TO JAPAN.

FOR MANY YEARS AVIATION RELATIONS WITH JAPAN HAVE BEEN DIFFICULT. THE CAUSES OF THIS STRAINED RELATIONSHIP ARE, I BELIEVE, AT LEAST TWO FOLD. ONE IS A PERCEPTION ON THE PART OF THE JAPANESE THAT THE EXISTING AVIATION AGREEMENT AND RELATED UNDERSTANDINGS, SIGNED IN 1952, ARE UNFAIR TO JAPAN AND GIVE US CARRIERS MORE ACCESS TO JAPAN'S MARKET THAN JAPANESE CARRIERS HAVE TO THE US MARKET.

ANOTHER CAUSE STEMS FROM COMMERCIAL CONSIDERATIONS AND THE TREND, EVIDENT SINCE THE LATE 1980S, OF AN INCREASING MARKET SHARE FOR US CARRIERS. IN 1995 US CARRIERS HAD ABOUT 63 PERCENT OF THE AIR PASSENGER MARKET AND ABOUT 53 PERCENT OF THE CARGO MARKET. US CARRIERS DERIVED APPROXIMATELY \$4.9 BILLION IN GROSS REVENUE FROM PASSENGER TRAFFIC AND MORE THAN \$1 BILLION FROM TRANSPORTING CARGO IN THIS MARKET.

IN OUR VIEW THE AGREEMENT IS NOT UNFAIR OR "IMBALANCED". THE AGREEMENT AFFORDS JAPANESE AIRLINES OPPORTUNITIES TO SERVE THE UNITED STATES WHICH ARE COMPARABLE TO THE OPPORTUNITIES U.S. CARRIERS HAVE TO SERVE JAPAN. WE BELIEVE LOWER OPERATING COSTS GENERATED BY THE DEREGULATED ENVIRONMENT IN THE US, RATHER THAN ANY IMBALANCE IN OPPORTUNITIES, HAVE FUELED THE GREATER MARKET SHARE THAT US CARRIERS HAVE ATTAINED IN RECENT YEARS . I WOULD NOTE THAT, UNDER ESSENTIALLY THE SAME AGREEMENT THAT WE HAVE TODAY, JAPAN'S SHARE OF THE MARKET WAS ROUGHLY EQUIVALENT TO THE U.S. SHARE THROUGH THE 1970S AND UNTIL THE LATTER PART OF THE 1980S.

AS A CONSEQUENCE OF ITS DISSATISFACTION, JAPAN HAS SOUGHT TO LIMIT OUR RIGHTS UNDER THE AGREEMENT. JAPAN HAS REFUSED TO APPROVE CERTAIN SERVICES PROPOSED BY US CARRIERS TO POINTS BEYOND JAPAN WHICH ARE AUTHORIZED BY THE AIR SERVICES AGREEMENT.

TO BE SPECIFIC, JAPAN HAS REFUSED TO APPROVE FLIGHTS BY UNITED AND NORTHWEST TO OPERATE BEYOND OSAKA TO JAKARTA AND FLIGHTS BY FEDERAL EXPRESS BEYOND JAPAN TO SEVERAL ASIAN DESTINATIONS. JAPAN HAS ALSO GRANTED ONLY SHORT-TERM AUTHORITY FOR CERTAIN SERVICES, SUCH AS UNITED'S ADDITIONAL LOS ANGELES-TOKYO FLIGHTS.

IN TURN, WE HAVE REFUSED TO ACT ON A REQUEST BY JAPAN AIRLINES (JAL) TO PROVIDE SCHEDULED SERVICE BETWEEN HONOLULU AND

HIROSHIMA AND LIMITED THE DURATION OF JAL'S AUTHORITY IN THE SENDAI-HONOLULU MARKET.

US-JAPAN AVIATION RELATIONS ARE LIKELY TO REMAIN STRAINED UNTIL AN AGREEMENT IS REACHED THAT RESOLVES THE OUTSTANDING ISSUES.

SINCE JANUARY WE HAVE MET THREE TIMES WITH THE JAPANESE IN EXPLORATORY TALKS AIMED AT ESTABLISHING A BASIS FOR RESUMING FORMAL NEGOTIATIONS. IN GENERAL, WE HAVE BEEN PRESENTING THE CASE FOR IMPLEMENTING A FULLY LIBERAL "OPEN SKIES" REGIME. UNDER SUCH A REGIME, ESSENTIALLY ALL RESTRICTIONS ON ROUTES, CAPACITY, PRICING AND ENTRY WOULD BE ELIMINATED.

SINCE JAPAN HAS INDICATED ITS STRONG OPPOSITION TO IMMEDIATE IMPLEMENTATION OF OPEN SKIES, WE HAVE SUGGESTED PHASING IN A MARKET-ORIENTED REGIME OVER A REASONABLE PERIOD. UNDER SUCH A SCHEME, NEW OPPORTUNITIES FOR SERVICES WOULD BE MADE AVAILABLE DURING A TRANSITION PHASE WHICH WOULD EVOLVE INTO A FULLY LIBERAL REGIME AT A SPECIFIED DATE.

JAPANESE NEGOTIATORS HAVE PROPOSED SOME EXPANSION OF OPPORTUNITIES BUT UNDER JAPAN'S PROPOSAL AIR SERVICES WOULD CONTINUE TO BE CONSTRAINED BY A VARIETY OF GOVERNMENT-IMPOSED RESTRICTIONS.

THROUGHOUT OUR DISCUSSIONS, THE JAPANESE HAVE STRESSED THE IMPORTANCE OF "EQUALITY" IN ANY AGREEMENT WE MIGHT REACH. EQUALITY FROM JAPAN'S POINT OF VIEW MEANS THAT THE NUMBER OF CARRIERS WITH LIBERAL ACCESS TO THE OTHER SIDE'S MARKET SHOULD BE THE SAME. JAPAN ADVOCATES THAT TWO AIRLINES OF EACH COUNTRY SHOULD BE GRANTED A HIGH DEGREE OF OPERATING FLEXIBILITY TO SERVE THE OTHER COUNTRY. THIS POSITION SERVES JAPAN'S INTERESTS WELL SINCE JAPAN'S INTERNATIONAL AIRLINE INDUSTRY CONSISTS OF BASICALLY ONLY TWO AIRLINES, JAPAN AIRLINES AND ALL NIPPON AIRWAYS. THIS APPROACH WOULD ESSENTIALLY GIVE JAPAN'S INTERNATIONAL AIRLINE INDUSTRY UNRESTRICTED ACCESS TO THE US MARKET WHILE EXCLUDING A MAJOR PORTION OF THE US INDUSTRY FROM LIBERAL ACCESS TO JAPAN. IN ANY AGREEMENT, THEREFORE, WE WOULD REQUIRE THAT OUR CURRENTLY RESTRICTED CARRIERS, SUCH AS AMERICAN, DELTA AND CONTINENTAL, OBTAIN SUBSTANTIAL NEW ACCESS TO JAPAN DURING ANY TRANSITION TO A FULLY LIBERAL REGIME.

TO THIS POINT I HAVE FOCUSED MAINLY ON PASSENGER SERVICES. OF EQUAL IMPORTANCE ARE RECENT DEVELOPMENTS WITH REGARD TO ALL-CARGO SERVICES. AS I MENTIONED EARLIER, THE JAPANESE CONTINUE TO WITHHOLD APPROVAL OF SERVICES PROPOSED BY FEDERAL EXPRESS TO CERTAIN ASIAN DESTINATIONS. WE HAVE ADVISED THE JAPANESE THAT WE MUST FIND A SOLUTION TO THE FEDEX ISSUE THAT NOT ONLY RESOLVES THE IMMEDIATE ISSUES INVOLVING THE ADDITIONAL SERVICES FEDEX IS PROPOSING, BUT THAT ALSO ENSURES THAT ISSUES OF THIS NATURE WILL NOT CONTINUE TO ARISE IN THE FUTURE. GIVEN THE

DYNAMIC NATURE OF THE CARGO MARKET, AND THE SPECIAL NEED FOR OPERATING FLEXIBILITY THAT CARGO OPERATORS HAVE, WE HAVE SOUGHT, AND WILL CONTINUE TO SEEK, THE COMPLETE REMOVAL OF RESTRICTIONS ON CARGO SERVICES. WE HAVE ALSO ADVISED THE JAPANESE THAT IT WOULD NOT BE POSSIBLE TO REACH AN ACCOMMODATION WITH RESPECT TO PASSENGER SERVICES WHILE IMPORTANT CARGO ISSUES REMAIN UNRESOLVED.

GIVEN THE WIDE DIVERGENCE OF VIEWS BETWEEN OURSELVES AND THE JAPANESE, WE ARE NOW ASSESSING APPROPRIATE NEXT STEPS.

FINISHING OUR GLOBAL OVERVIEW BRINGS US BACK TO EUROPE AND THE HIGHLY RESTRICTED UNITED KINGDOM AVIATION MARKET. THE US-UK AVIATION AGREEMENT, BERMUDA 2, STANDS IN STARK CONTRAST NOT ONLY TO GENERAL BRITISH ECONOMIC PHILOSOPHY BUT ALSO TO THE LEADERSHIP ROLE THAT BRITAIN PLAYED IN INTERNAL EUROPEAN AVIATION LIBERALIZATION. BUT ECONOMIC INCONSISTENCIES ASIDE, THE REAL-WORLD IMPACT OF THE BERMUDA 2 RESTRICTIONS HAS MEANT THAT US CARRIERS CANNOT DETERMINE THEIR CAPACITY AND PRICE LEVELS WITHOUT GOVERNMENT INTERFERENCE, US CITIES ARE DEPRIVED OF SERVICE, AND THE RELATIVE PARTICIPATION OF US CARRIERS IN THE MARKET IS ARTIFICIALLY CONSTRAINED. WE RECOGNIZE THE IMPORTANCE OF THIS AVIATION MARKET, AND ITS LIBERALIZATION HAS BEEN AT THE FOREFRONT OF OUR INTERNATIONAL AVIATION AGENDA.

THE DISAPPOINTING NEWS IS THAT WE HAVE NOT YET ACHIEVED THE LIBERALIZATION THAT HAS BEEN OUR GOAL SINCE THE BEGINNING OF

THE CLINTON ADMINISTRATION. DESPITE A 1993 UK COMMITMENT TO ACHIEVE AVIATION LIBERALIZATION WITHIN A YEAR, THE BRITISH HAVE CLUNG TIGHTLY TO THE PROTECTIONIST FRAMEWORK OF BERMUDA 2.

HOWEVER, THE ENCOURAGING NEWS IS THAT COMMERCIAL IMPERATIVES ARE AGAIN FORCING REGULATORY APPROACHES TO CHANGE. THE PROPOSED AMERICAN AIRLINES-BRITISH AIRWAYS ALLIANCE, FOR WHICH THE AIRLINES ARE SEEKING ANTITRUST IMMUNITY FROM DOT, HAS FINALLY PROVIDED THE BRITISH WITH THE INCENTIVE TO JOIN WITH US IN A FUNDAMENTAL RESTRUCTURING OF THE AVIATION REGIME. ALTHOUGH THE BRITISH ELECTIONS AND CHANGE OF GOVERNMENT HAVE RESULTED IN A TEMPORARY HALT TO FORMAL NEGOTIATIONS, THE OPEN-SKIES TALKS HAVE MADE PROGRESS. THAT PROGRESS HAS NOT BEEN AS RAPID AS WE ANTICIPATED, NOR AS WE WOULD HAVE PREFERRED, BUT IT IS REAL NONETHELESS.

IN PARTICULAR, THE BRITISH HAVE ACCEPTED THAT, IN AN OPEN-SKIES REGIME, THE "TWO-CARRIER" RULE THAT HAS RESTRICTED US CARRIER ENTRY AT HEATHROW MUST BE ELIMINATED. MOREOVER, IN A NEW REGIME, NO US CITIES WILL BE ARTIFICIALLY BARRED FROM SECURING NONSTOP FLIGHTS TO LONDON FROM ANY INTERESTED US OR UK AIRLINES.

HOWEVER, IMPORTANT WORK REMAINS TO BE DONE. PRICING, FIFTH-FREEDOM OPPORTUNITIES, DISPUTE RESOLUTION, FLY-AMERICA, GROUNDHANDLING AND SECURITY ARE OPEN ISSUES.

WE HAVE SENT A CONSISTENT AND CLEAR MESSAGE TO THE BRITISH THAT THERE IS NO POSSIBILITY FOR ANTITRUST IMMUNITY IF ALL THE ESSENTIAL OPEN-SKIES ELEMENTS ARE NOT PRESENT. MOREOVER, AS WITH THE OTHER ALLIANCES, OPEN-SKIES IS A NECESSARY, BUT NOT SUFFICIENT, PRECONDITION BEFORE IMMUNITY CAN BE GRANTED. COMPETITIVE CONSIDERATIONS MUST ALSO BE ASSESSED BY BOTH THE JUSTICE DEPARTMENT AND OURSELVES. THEREFORE, WE HAVE ALSO CONSISTENTLY LINKED A NEW AGREEMENT WITH A COMPETITIVELY EFFECTIVE PRESENCE OF US CARRIERS AT LONDON'S HEATHROW AIRPORT.

THE ISSUES THAT REMAIN TO BE RESOLVED INVOLVE KEY OPEN-SKIES ELEMENTS. NEVERTHELESS, WE ARE CAUTIOUSLY OPTIMISTIC THAT THE NEGOTIATIONS CAN ULTIMATELY SUCCEED, AND OPEN SIGNIFICANT NEW OPPORTUNITIES FOR US CARRIERS IN THIS MARKET.

GIVEN THAT ASSESSMENT, IT WAS IMPORTANT TO LAY THE PROCEDURAL GROUNDWORK TO ALLOW ALL INTERESTED PARTIES TO PROVIDE INPUT ON THE PROPOSED AMERICAN AIRLINES-BRITISH AIRWAYS ALLIANCE ON A TIMELY BASIS. US CARRIERS AND CITIES WANT ENHANCED ACCESS TO THE UK MARKET, PARTICULARLY HEATHROW AIRPORT. WE MUST NOT BE IN A POSITION WHERE REGULATORY TIME-FRAMES UNNECESSARILY DELAY THE EXERCISE OF POSSIBLE NEW OPPORTUNITIES. IN TAKING THIS STEP, I CAN ASSURE YOU THAT THERE HAS BEEN NO CHANGE IN THE FUNDAMENTAL DEPARTMENT POSITION THAT, AT A MINIMUM, OPEN SKIES MUST BE AGREED BEFORE WE WILL ISSUE EVEN A TENTATIVE DECISION ON THE GRANT OF IMMUNITY.

IN SUMMARY, WE HAVE MADE SIGNIFICANT PROGRESS IN LIBERALIZING INTERNATIONAL AVIATION AND WE ARE CONTINUING TO PURSUE THAT OBJECTIVE. I BELIEVE THAT, WITH OUR CLEARLY ARTICULATED GOALS AND COMPREHENSIVE STRATEGIC ACTION PLAN COMING TOGETHER WITH COMMERCIAL FORCES AND ENLIGHTENED AVIATION PARTNERS, WE WILL ACHIEVE OUR GLOBAL OPEN-SKIES GOAL -- TIME IS ON OUR SIDE; THE MARKET RESULTS FOR AIRLINES ALREADY ENJOYING LIBERALIZATION ARE ON OUR SIDE; AND FORWARD THINKING AIRLINES AND GOVERNMENTS THAT WISH TO BE SIGNIFICANT PLAYERS IN SHAPING THE NEXT DECADE OF INTERNATIONAL AIR TRANSPORT ARE ON OUR SIDE.